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OUT OF THE RUINS

As Portugal considers the implications of its recent €78bn bailout, *LB* assesses the impact it will have on the legal market and how Portuguese law firms can survive in an economy stuck in limbo

ANTHONY NOTARAS

By the time that this issue of *Legal Business* hits desks, Portugal will be on the brink of electing its new government. What form that government takes remains to be seen, although a majority coalition involving one of the two largest parties (the Socialist Party and the Social Democratic Party) looks almost certain. Regardless of the outcome of the 5 June elections, however, the European Union and the International Monetary Fund (IMF) will, in reality, guide domestic and economic policy in Portugal for the next few years. It is they, after all, who will be providing the €78bn bailout package, with plenty of strings attached.

Portugal's economic crisis in the lead up to the bailout has, unsurprisingly, severely impacted the domestic legal market on both a macro and micro-economic level. The broader brush strokes of the crisis have seen a crash in major PPP projects, as well as a halt in significant real estate, M&A, finance and capital markets deals. While this has to a certain extent been balanced out by overseas opportunities in Portuguese-speaking countries, and an increase in insolvency, litigation, tax and employment work, the knock-on effects in terms of cashflow and ▶

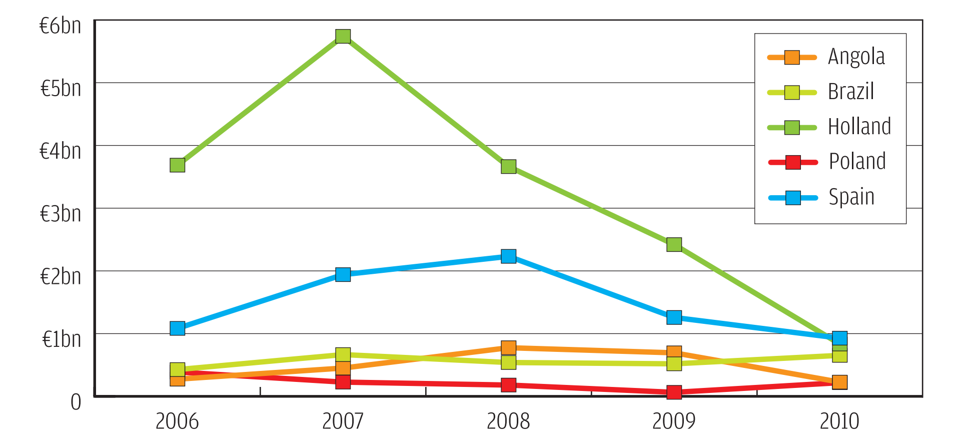
▶ client payments, which have slowed down dramatically, have added significant pressure to the day-to-day running of most Portuguese law firms. It is understandable then that Portugal's lawyers see the bailout as a crucial turning point. This is despite the fact that at the time of writing, Fernando Teixeira dos Santos, the Portuguese finance minister, warned of two years of deep recession, with GDP dipping by 2% in 2011 and 2012. Nevertheless, Portugal's lawyers are facing the future with a mix of cautious optimism and pragmatism that Miguel Castro Pereira, managing partner of Abreu Advogados, perfectly sums up: 'Just because it is bad for the economy doesn't necessarily mean it is bad for lawyers. We still have work to do.'

COUNTING THE POSITIVES

'I expect the bailout to have some positive effect on the legal business,' says Duarte Garin, Uría Menéndez's Portugal managing partner. 'The last three years have been very quiet due to the fact that uncertainties caused by the Portuguese economy have driven away investors. This has caused a very significant slowdown in the M&A and real estate market and has brought things to a complete halt. At least we now have things that are certain. The bailout is there.'

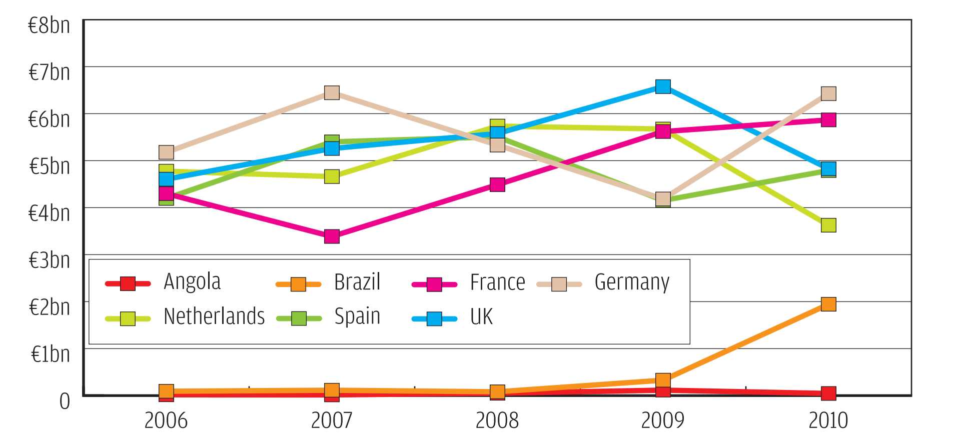
The general consensus among lawyers reflects Garin's view that the bailout is a positive step, that it will help implement changes that should have been brought about years ago but which were hampered by a lack of political will. 'It will have a positive effect as it will force us to do things that we knew

PORTUGUESE INVESTMENT OVERSEAS



Source: AICEP - Portugal Global

FOREIGN DIRECT INVESTMENT IN PORTUGAL



Source: AICEP - Portugal Global

‘The last three years have been very quiet as the uncertainties caused by the economy have driven away investors.’

Duarte Garin,
Uría Menéndez

we had to do, such as reform the labour laws,’ says João Caiado Guerreiro, partner at Franco Caiado Guerreiro & Associados.

The difficulties that Portuguese politicians faced in making crucial reforms were illustrated on 23 March when the Portuguese prime minister José Sócrates was forced to resign after the parliament rejected his minority Socialist government’s proposed austerity measures. Since then all the main parties have had to sign up to the bailout package to ensure that whoever is in power after 5 June will implement the required changes.

‘The elections are in June, but because of the uncertainty of who will run the country, the bailout agreement will have to be signed by the government and the opposition parties,’ says Rui Amendoeira, managing partner of Miranda Correia Amendoeira & Associados (Miranda Law Firm). ‘The hard facts are that if we don’t get any money pretty soon the government has announced that they don’t have any money to pay May’s public servant salaries.’

▶ CAN'T PAY, WON'T PAY

The issue of pay illustrates quite how severe the effects of the downturn, and in turn the financial health of the public sector, have been on the day-to-day running of most Portuguese law firms, and how the fresh injection of liquidity that comes with the bailout will hopefully alleviate the strain. The overall volume of work has, to a certain extent, stayed at the same level by shifting into more counter-cyclical areas such as litigation and employment law. This is something that most Portuguese law firms can adapt to more easily than their counterparts in the US and London, since most of their lawyers aren't as specialised.

'In Portugal it isn't easy to have an expert in one specific area of law,' says Castro Pereira. 'If you have a corporate lawyer, usually he is also a finance lawyer or a tax lawyer. This allows us to shift him within the firm. We've had no redundancies.'

As a result of this, staff cuts have been relatively few and far between, the most high profile coming in May 2010 when Linklaters let go of six associates from its Lisbon office.

'I think you have a cultural issue there,' says Amendoeira. 'While in London the management decides that 15% must go, here we don't have that culture. You just don't announce a layoff plan. That in part explains why we are in this mess. However, people leave by attrition, because they aren't paid or aren't paid adequately. Or because they think they aren't going to be promoted, but that isn't done as part of a layoff plan.'

The issue of pay largely comes down to the fact that some of the law firms are struggling to get paid themselves. The worst effected are those that work directly for public sector bodies.

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João Caiado Guerreiro, Franco Caiado Guerreiro

suffer,' says Pedro Pinto, founding partner at Pedro Pinto, Bessa Monteiro, Reis, Branco & Associados (pbbr). 'In terms of delay for the payment of fees, the next two or three years will be hard. If you are invested in public works as a core practice area of your firm then you have something to think about.'

However, the knock-on effect for the private sector has also come to bear on small and medium-sized clients who themselves are reliant on the state paying on time.

'Law firms whose client base includes small and medium enterprises have been impacted, not necessarily on their invoicing, but on the collection of the invoices because the liquidity in the market has decreased,' says Domingos Cruz, partner at CCA Advogados. 'It is a domino effect.'

Portuguese managing partners describe a clear mood in the Portuguese economy to pay later. 'It is something that becomes much more visible in all sectors of the economy than it was before,' says Manuel Santos Vítor, co-managing partner at PLMJ.

Lock up periods have increased considerably among almost all the law firms, typically by around 30 to 50%, from around 90 days to as much as 140. Some report that it is much worse.

'People say the activity is the same, but they don't pay us in 60 days as they did before, they pay us in six months or one year,' says Amendoeira. 'This poses serious cash flow problems, particularly for those with high fixed costs and rigid compensation structures. If you look to any payment from the government or a public sector entity you could easily be looking at one year before you get paid. There is no point in complaining or putting pressure on the client because they are not going to pay you.'

The cash flow problems are particularly severe for those firms who have significant credit lines with banks, as the banks themselves are strapped for cash and have become much more conservative with their credit.

This poses awkward questions for firms who want to remain on good terms with their clients but also need to chase them for money. The fear is that if they push too hard they will lose them to firms that are willing to be more accommodating.

'We've had to introduce new strategies and become a bit more aggressive in our collections,' says Pedro Guimarães at FCB&A – F. Castelo Branco & Associados. 'Until recently our billing was a bit more relaxed. Previously we would have our accounts department dealing with that, but now we've had to bring in a collections department. There is so much competition so if you become really aggressive and unpleasant they will go elsewhere. The sectors that suffer the most and transfer that to us are companies that deal with the state. The government is paying at six months and they pay us at six months as well. It's fairly ▶

'If you are a law firm without a diversified clientele and you are focused on fees from the Portuguese state then you will really suffer.'

Pedro Pinto, pbbr

straightforward and we have to take it or leave it.'

Nevertheless, the pressures have pushed law firms down routes such as litigation that previously would have been unthinkable. 'We have for the first time taken some clients to litigation,' says Pedro Rebelo de Sousa, senior partner at SRS Advogados. 'So we are actually collecting, which I don't believe we have done in the last two decades. People are trying to pay later and this obviously creates pressure. It creates for us the need to be more professional in terms of billing guidelines and the information to the client.'

'Bringing suits for legal fees was something we never did in the past and now we are being forced to do this more often,' adds Victor de Castro Nunes, a partner at three-partner boutique BCS Advogados. 'Our corporate clients are prestigious companies and suddenly they are having difficulty making payments.

Our exposure to the public sector isn't huge. It might have represented about 10% of our turnover last year. It does have an impact because there are situations where we are still working and the contract for the payment to the law firms has to be authorised. It happens with lots of service suppliers to the state, which are waiting for the payment to come for a long time.'

Even those firms that are doing relatively well are being hit. 'The fact that we've increased turnover doesn't mean we don't have problems as the shortage of liquidity affects us all,' says Castro Pereira.

It is unsurprising then that even though the government is likely to become more active in the legal market, most firms are resting their hopes on the private sector and work that might arise from international investment. 'The ones that are withstanding this period are those firms with a more regular day-to-day business with private companies that have an international exposure,' says Amendoeira. 'There is going to be a big privatisation programme in the agreement with the IMF. There is going to be a lot of labour work from the government as part of the restructuring and downsizing, but the problem is getting paid on time.'

EXTRAORDINARY MEASURES

Some of the measures that come with the bailout include cutting the budget deficit to 3% of GDP by 2013, as well as a VAT increase to 25%, a freeze on public sector pay and pensions, and a tax on pensions above €1,500 a month. €12bn of the bailout funds will go towards shoring up the country's banking system, while reforms to the labour laws are also deemed essential. The biggest measure in this respect will be a 66% reduction in redundancy payments (so rather than paying dismissed workers 30 days' compensation for each year worked, employers will now compensate them with ten days' pay for each year). Perhaps most relevant to law firms is the fact that all the major pending state infrastructure projects will be reassessed, which will almost certainly bring to an end a stream of work that kept lawyers busy following the immediate aftermath of the 2007/08 credit crunch. On the positive side, however, a major privatisation programme has also been pencilled in, with a view to raising over €5bn. The sale of government stakes in three companies is already scheduled for the end of the year, including the national carrier Tap-Airlines, the energy company EDP, and REN, which owns Portugal's national electricity grid. While the law firms do accept that these present a great opportunity, with so many having been stung by the public sector's inability to pay fees in a reasonable period of time, it is clear that when it comes to the privatisations there is only one side that they want to be working for.

'When we talk among partners there is this joke that when you have a privatisation you want to be with the winner, the second best will be the ones pitching and the last one will be the state,' says António Payan Martins, a partner at Rui Pena, Arnaut & Associados. 'If this was true ten years ago it will be the same now.'

The privatisation programme won't actually start until after the 5 June elections, when it becomes clear what shape the government ▶

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will take. Nevertheless, in the case of all of these privatisations, it is not so much a question of if, but when, they will take place.

'It has been made abundantly clear that regardless of the outcome of the election, all the main parties would be bound by the IMF agreement,' says Manuel Santos Vítor. 'Although the bailout represents globally significant bad news for Portugal, certain things aren't as bad as anticipated. The mandatory reforms and action to be taken as a condition to the bailout will represent a fresh opportunity for Portugal. There will be opportunities for the legal markets as well, namely as a result of the privatisation of state-owned companies and the envisaged renegotiation of existing agreements. We are of course looking into that. We also know that the bailout will mean increased liquidity for the bank system, which was in a very tight position. The bailout will mean that some of the public debt that was taken over by the Portuguese banks can be released, which means there will be more liquidity available for banks to restructure their balance sheets and for the Portuguese economy.'

Another important area of reform, that has yet to be fully mapped out, concerns the Portuguese court system, which is generally considered to be far too inefficient. 'The legal system has been identified by the IMF as one of the most important reforms we need to do in Portugal,' says Diogo Leónidas Rocha, a partner in Garrigues' Lisbon office. 'No one wants to invest in Portugal if they have to wait a long time to resolve a dispute.'

For some, this reflects the general negative perception in which the country is sometimes held, one that goes beyond debt and number crunching. 'The country's current problem is not only economic, but also one of reliability,' adds Nelson Raposo Bernardo, managing partner of Raposo Bernardo. 'I believe that in the end this will be the real problem we have to solve, the lack of confidence of the Portuguese people concerning the country and also the lack of trust from foreign investors.'

'Our increased turnover doesn't mean we don't have problems as the shortage of liquidity affects us all.'

Miguel Castro Pereira, Abreu Advogados

INVESTOR CONFIDENCE

This desire to attract investment is crucial to a country riddled with debt and lacking in liquidity. While foreign direct investment (FDI) into Portugal rose slightly to €35bn in 2010 from €32bn in 2009, net FDI has fallen from its peak of €8.7bn in 2006 to €1.1bn in 2010 (see table, 'Foreign Direct Investment in Portugal', page 64). While the bailout might not be a ringing endorsement of the country's economic situation, the hope is that for pragmatic investors it will draw a line under the current difficulties and provide some impetus for a turnaround, especially since many Portuguese corporate assets can potentially be picked up relatively cheaply.

'Obviously a bailout is an indication that something has gone very wrong, but at least it is something that will enable the country to take the measures that have been required for years,' says Garin.

'I see it as a one-shot occasion to reinvent a model for our country,' agrees Pinto. 'We have to reduce the role of the state and this had to be done. This is an occasion that is critical for us. The way the country has developed is not sustainable. I see this as an opportunity.'

'The feeling is that this will give some assurance to foreigners seeking to invest in Portugal as it will give reference to government interest rates,' adds Castro Pereira. 'It will take some time to recover but at least we will have a specific reference and that will be the interest rate paid to the IMF and European Central Bank.'

If anything there is the belief that at least things can't get much worse than what has occurred in the past few years. As Carlos Cruz, the founding partner of CCA Advogados, points out, this lack of confidence has had a huge impact on all corners of the market. 'Builders don't build and potential buyers lack funding because the banks don't lend or lend at an exorbitant rate,' he says. 'If you go to an international bank and present real estate in the South of Europe as collateral they just refuse.'

'Before, there was a lack of investment, and no financing available for businesses,' says Victor de Castro Nunes. 'This lack of financing was causing an absolute deadlock in our M&A market and in borrowing as well. In the capital markets we saw no relevant issues in the past few years. Hopefully the bailout will provide a bit more certainty and a bit more money into the market.'

Some firms are already reporting increased interest from foreign investors, who have the distinct advantage of having greater access

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Diogo Leónidas Rocha, Garrigues

WHERE OTHERS FEAR TO TREAD

With most major international firms opting to stay clear of having an official presence in the Portuguese legal market – indeed Simmons & Simmons decided to extricate itself in 2009 – the timing of Kennedys' entry into Lisbon is bold to say the least. On 1 March it merged with its longstanding alliance firm Almeida & Athayde to formally launch Kennedys Portugal. The hope is that the tie-up will help strengthen links with Portuguese clients such as Portugal Telecom and Banco Espírito Santo, as well as provide a launch pad into Portuguese-speaking countries, not least Brazil.

'We have been associated for six years and finally we decided to get married,' says partner Augusto de Albuquerque de Athayde. 'It's the moment when the Portuguese-speaking territories are asserting themselves more and more as important economic zones. Therefore the Portuguese language and culture may work as cultural capital, which provides a big potential for setting up business links.'

De Athayde adds: 'In Brazil, 50 million people are now lower middle class. They are all consumers and for the insurance market that is very important.' This is a fact that will no doubt appeal to Kennedys' significant international insurance client base, which includes Chartis and Munich Re.

De Athayde says that the downturn in Portugal's domestic economy hasn't impacted negatively on the business. 'We are counter-cyclical so in our case we are increasing profits and are growing. There is lots of litigation,' he says. 'There are lots of regions in the world that are growing and we want to be there and add value. When people try to seek new opportunities overseas they need legal advice and they want well-connected lawyers. We are betting on those opportunities. For us this crisis is an opportunity.'

▶ to foreign banks and therefore greater liquidity. For deals and financings involving Portuguese entities they are inevitably instructed. 'In 2008 there was a dip in banking activity,' says Guimarães. 'Even that has been overcome so I think the banking side of business for a number of firms has recovered. The difficulty of getting Portuguese banks to finance deals in Portugal does reduce the amount of work. Financings from abroad though will need Portuguese lawyers. That is a positive note for the firms that do work in those areas.'

'We've received lots of requests to provide quotes on acquisitions and due diligence,' adds Castro Pereira. 'Investors can benefit from the significant reduction of the price of equity. They will have to fund these acquisitions from outside. If you have funds available from outside of Portugal then you can do it as you can have a significant margin.'

This increased confidence has been lacking in the market for some time, according to lawyers who have seen it reel from one slump to another, starting with a general corporate

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António Payan Martins, Rui Pena, Arnaut

finance downturn in 2008 to the more recent public sector freeze in 2010.

'Since 2008 we clearly have seen a substantial decrease in big M&A transactions,' says Payan Martins. 'This was the first big impact of the global crisis. Then the volume of transactional work became very much centred on the state. This was perhaps more specifically Portuguese, where the government pushed for public works that had been under discussion for a long time. It decided to go forward with the high-speed railway to Madrid. There was a flow of project finance-related transactions. There was a push for the new airport. It was mainly state-oriented work because private companies were digesting the impact of Lehman Brothers' collapse. What we have seen is that the state influx was clearly a kind of bubble. Since 2010 it was clear that this bubble could not be sustained, and it collapsed in the way that everyone is familiar with.'

For the law firms themselves, the fallout from this very much depends on who their clients are and what sectors they are exposed to. Some remain relatively optimistic about their prospects. 'Large publicly-funded projects – the new Lisbon airport, parts of the high-speed rail and some road projects – have been dropped, and government expenses have been dramatically cut. PPPs are also being revised,' says Manuel Protásio, a projects and energy partner at Vieira de Almeida & Associados. 'All of this directly impacts on the legal market, of course, although not all adversely. As a matter of fact, the shift in the traditional structuring of public initiative projects, together with the increasing access to funds by Portuguese banks, which are looking reasonably healthy in accordance with the latest stress tests, will pave the way, in due course, for a surge in work in the financing and M&A areas, and will certainly continue to fuel legal work in the labour, litigation, restructuring and insolvency sectors.'

'The type of clients who have mostly suffered with this downturn are the medium-sized companies with strong economic exposure to the Portuguese market, without significant projects abroad,' adds Nelson Raposo Bernardo. 'Larger companies are relatively well defended, at least until now and providing that this crisis scenario does not extend much more. The same is also true with small businesses, as these models are based on a lighter, more flexible cost structure.'

FLEXIBLE FRIENDS

Given the increased pressure that domestic law firms already have on their lock up, the need to be flexible is vital. As mentioned before, the fact that Portuguese lawyers are less specialised and therefore more adaptable certainly helps. Depending on the nature of the law firm, however, flexibility in terms of partnership remuneration is also required for those that are in it for the long haul. The suggestion is that some of the ageing, founding partners in some of the leading law firms might not necessarily be willing to take that sort of hit.

'The longer the individual partners are able to hold their breath by accepting deeper cuts on their profits, the better for the law firm,' says Gonçalo Capela Godinho, a partner at Cardigos. 'Equity partners will need to invest again in their law firm, which is always a difficult task since the level of institutionalisation is still very limited, and partners have a tendency of not favouring investments with a financial return beyond their professional life expectancy. All the major law firms in Portugal have not yet gone beyond the generation of their founding fathers, which says a lot of the generation still in command.'

Flexibility in terms of fee arrangements has also been crucial, not just in terms of when they get paid, but also how much they get paid. 'We've had to be more creative in our billing system,' says Guimarães. 'The standard continues to be hourly rates and we all try and stick to that despite clients really not wanting it anymore. We've definitely had to compromise on a number of fixed-fee arrangements and significant discounts.'

Regardless of what the firms themselves want, fixed and capped fees are becoming increasingly prevalent. While fixed-fee arrangements for day-to-day work have been common in the Portuguese legal market for some time, capped fees are a more difficult proposition.

'The country's current problem is not only economic, but also of reliability. This will be the real problem we have to solve.'

Nelson Raposo Bernardo, Raposo Bernardo

'When you compare Portugal with other jurisdictions, fixed fees were very much normal for historical reasons,' says Manuel Santos Vítor. 'We have had clients with fixed-fee arrangements for many years now and these have been kept in place and in some cases enlarged to cover other clients. Fixed caps have also become very much the rule in many of the mandates that we are trying to win. This is sometimes very complicated because it is difficult to foresee what is going to happen.'

'This pressure comes from the client and the big players, who, if they have over capacity, dump prices,' adds Rebelo de Sousa. 'Then you have the convergence of the two. It puts pressure on us to become more and more creative. We hired some consultants from McKinsey & Company to discuss new ideas in terms of being creative with clients, such as approaches on sharing the risk.'

Despite such attempts to be flexible with fee structures, however, in most cases the price dumping has become almost unavoidable, with many reporting partner rates down to €100 an hour. For some firms the situation has reached a point where they are now not even bothering to turn up to beauty parades.

'Even if we offer what we believe are very competitive fees for domestic work it is certain there is someone who can offer a lower fee,' says Amendoeira. 'That is why we have virtually stopped bidding for public tenders in domestic work because it is a waste of time. There are smaller firms offering fees that are lower than what I pay my maid back home. We decided we aren't going to play that game and some of the other firms have made that decision as well. So last year we completely skipped any public tenders for government work because decisions are made purely on the lowest price and you have kamikaze firms willing to work for peanuts, and nobody seems to be worried about the quality.'

PLAYING AWAY

Faced with such pressure on their revenues and cashflow, cost cutting has had to be implemented, albeit not through redundancies but through pay freezes, both at partner and more junior levels.

'Most of the firms have been cost conscious, so any increase in their profits will be more a consequence of cost cutting rather than a pure increase in their turnover. We had an increase in profitability of around 15%, but an increase in turnover of 5%,' says Rebelo de Sousa. 'The firms are still in a wait-and-see position, because the cost of the dismissals and the replacements is something they don't like to incur. Many are trying to use their excess capacity in the Portuguese-speaking countries.'

This is very much reflective of the Portuguese economy as a whole, where there is a race to expand abroad. As Maria João Ricou, Cuatrecasas, Gonçalves Pereira's Portugal co-managing partner, points out: 'The postponing and, in certain cases, the cancellation of major infrastructure PPPs has been a strong incentive for the major companies to continue expanding their activities worldwide, with a special focus on the Brazilian market and in other Portuguese-speaking countries, namely Mozambique and Angola.'

Cuatrecasas's success in capitalising on the increased interest in the Brazilian market, was seen in July 2010 when it represented Telefónica, alongside Cravath, Swaine & Moore, on its €7.5bn acquisition of Portugal Telecom's 50% stake in the Brazilian mobile phone provider Brasilcel. This is the largest M&A transaction in Portugal of the past 12 months, and a rare bright spot in an otherwise threadbare transactional calendar.

'Those doing international work are doing wonderfully,' says Jõao Caiado Guerreiro. 'Portugal has been in crisis for ten years. Crisis isn't that terrible if you know how to manage it.'

Given the pricing and payment issues that firms face on the domestic front, most are managing the crisis by hedging their practices with work connected to booming Portuguese-speaking countries, such as Angola, Brazil and Mozambique. It is unsurprising then that it is on the international side that they see the best prospects for growth and profit. This is certainly the case at PLMJ, which saw turnover rise by just under 5% in 2010. 'We expect that our turnover in the international network will grow significantly in 2011,' says Santos Vítor.

For work connected to Angola, in particular, partners can charge up to €500 an hour. 'The fees that we charge in Portugal, even to large clients, are 15 to 30% of what we charge in our international practice,' says Amendoeira. For those firms like Miranda, which has offices throughout Africa, there really is no choice but to go abroad and profit from those international connections. Those left at home have to play a waiting game. **LB**

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Photograph SHUTTERSTOCK

SHIFTING SANDS

With Portugal's recession expected to continue for at least another two years, the country's law firms have no option but to go abroad. *LB* assesses whether their international strategies are paying dividends

ANTHONY NOTARAS

As any schoolboy will tell you, Portugal has a proud tradition as one of Europe's foremost explorers. The era of Henry the Navigator and Vasco da Gama was a golden age of European discovery, in which a tiny nation spread its tentacles throughout the world and, for a period, became one of its greatest powers. Nearly 600 years later, Portugal's lawyers are continuing in the same vein. Their adventures might be much more prosaic, but the impetus that drives them – namely the limitations of their domestic market – is the same. Global domination is by no means on the cards, but the international networks that some Portuguese firms boast, such as Miranda Correia Amendoeira & Associados (Miranda Law Firm), are far greater than many of their rivals in the UK and elsewhere. The pattern of expansion follows the path of their famous forebears into former colonies and Portuguese-speaking nations, of which Angola, Brazil and Mozambique are the most important. Offices in Macau and China are also springing up to benefit from Chinese investment into Africa, while increased trade with EU countries such as Poland and Romania has led to offices in Eastern Europe as well. For those that are already well positioned, with clients coming from or entering these markets, the severe downturn that Portugal is suffering has had a much more reduced impact on their finances. ▶

'We have a very big international practice so we are far less exposed to the downturn,' says Rui Amendoeira, Miranda Law Firm's managing partner. 'Even though the Portuguese side of the practice has diminished that isn't too significant to the firm. Africa, particularly the Portuguese-speaking countries, is the largest for us. There is no comparison. The language and legal system are very similar to Portugal. This is where we have a competitive advantage.' Miranda Law Firm is widely seen as being one of the pioneers in terms of international expansion, and it now has offices throughout Africa, as well as Asia, Brazil and the US. In the latter three instances, these are primarily there to service clients with interests in Africa and Portugal. This has since extended to opening offices in former French colonies such as Gabon and Congo, driven in part by the energy and natural resources clients it has already advised throughout Lusophone Africa. Miranda Law Firm's strategy of entering Portuguese-speaking nations is one that many firms have since emulated. Since Brazil and Angola are the fourth and fifth largest recipients of Portuguese outbound investment, respectively receiving €653m and €226m in 2010 (which was significantly down from previous years), it is hardly surprising that this approach is proving popular.

'I think it is an essential strategy,' says Pedro Guimarães a partner at FCB&A – F. Castelo Branco & Associados, which has an office in Angola. 'It is already a profitable office for us. That isn't really the point of it to become quickly profitable. We felt that Portugal, despite the current problems, is still a very small economy. We have to start looking towards markets where we might play a difference as Portuguese lawyers.'

'With Portuguese companies investing abroad law firms have been able to internationalise their practices.'

Martim Anahory, Serra Lopes

FOLLOW THE MONEY

'Legal activity is a mirror of the overall market,' explains Martim Anahory, a partner at Serra Lopes, Cortes Martins & Associados. 'With many of the Portuguese companies investing in foreign countries – and some of the biggest Portuguese companies already have more than 50% of their revenues coming from abroad – law firms have been able to internationalise their practices, namely in the EU and the former Portuguese African colonies.'

'What companies want is to be less and less dependent on the Portuguese market as it is going to have to restructure itself and it isn't going to grow in the next few years,' says Pedro Rebelo de Sousa, senior partner at SRS Advogados. 'Companies will want over 50% of their revenues coming from countries other than Portugal.'

For the most part, the work that has taken most firms in an international direction has come from Portuguese clients, many of which have tended to favour Portuguese-speaking countries. 'We are helping a lot of Portuguese companies go international,' says João Caiado Guerreiro, a partner at Franco Caiado Guerreiro & Associados, which has an Angolan office. 'There is an understanding that we aren't going to have a decent economy for the next ten years. If they don't go abroad they will be in trouble. If you look at it Portugal is in relative trouble because we don't have growth, but the Portuguese-speaking world has never had it so good. Our Brazilian and African desks are full of work. Technology enables us to do things now that we wouldn't have been able to do some years ago.'

'Most companies will have anticipated this in their business plans and are searching for opportunities elsewhere,' adds Manuel Santos Vítor, co-managing partner of PLMJ. 'Everyone is looking for opportunities in international markets. We're following our clients where they go.' While PLMJ's strategy reflects the direct need that Portuguese clients have abroad, perhaps more important is the added value that Portuguese law firms can provide to Portuguese, and most crucially non-Portuguese, clients that have interests in Africa. It is for exactly this reason that PLMJ entered into a partnership with Dacheng Law Offices, one of China's largest law firms, a relationship that involves one PLMJ senior associate working permanently out of Dacheng's Beijing office. 'Of course if there are outbound opportunities from Portugal into China we will try and follow them,' says Santos Vítor. 'But the target there is very much the opportunity to follow Chinese investment into Africa. As a result of the IMF there will also be some very interesting opportunities in Portugal.'

Another Portuguese firm to have entered into China is CCA Advogados, which opened an office in Shanghai in November 2010. 'Portuguese companies and law firms are looking for new markets,' says CCA partner Domingos Cruz. 'The golden triangle of Brazil, Africa and Portugal is very appealing to companies and law firms, which have been steadily working their way into those markets. That shift has been steadily growing. We have taken a different approach, to follow the money. We believe there is a huge opportunity in Asia and we were the first Portuguese law firm in Shanghai.'

NO EL DORADO

Despite interest in Asia, of all the foreign destinations it is Angola that has generated the most excitement. Having emerged from a horrific civil war, its vast natural resources, particularly oil, have attracted huge investment from abroad. This has contributed to a GDP growth rate that hovered at around 20% between 2005 and 2007. This has since dropped to an estimated 6% for 2010, but compared to its former colonial master Portugal, whose GDP growth has barely breached 2% since the turn of the millennium, it isn't hard to see the attraction for lawyers. Already though, there are concerns that many firms are too late to the party. ▶

▶ 'I believe it is possible that international operations will contribute positively to balance any breach of internal work for law firms that already have a relatively consolidated position internationally speaking,' says Nelson Raposo Bernardo, managing partner of Raposo Bernardo. 'But for companies only now taking the first steps to approach the markets to where it is natural to internationalise, such as the five Lusophone African countries, especially Angola and Mozambique, or to Brazil, it can be tricky to find possible solutions to internal problems. These countries have a high living cost, particularly Angola, and despite the good relations with Portugal it always takes some time to be able to build in a foreign country and make it profitable.'

'We often say it isn't El Dorado,' adds Claudia Santos Cruz, a partner at AVM Advogados, a firm of Angolan origin that has since moved the opposite direction into Portugal and also has an office in Mozambique. 'Working in those markets is difficult. Most of these countries are heavy with bureaucracy, and corruption is an issue so things can go wrong if you aren't experienced. Angola is becoming flooded.'

One of the practical challenges that law firms face is attracting the right talent. Most firms either establish a presence with a small office on the ground or through an alliance with a local Angolan firm. Whichever approach they take, for the lawyers to be registered at the Angolan Bar they need to be Angolan nationals.

'Human resources is our biggest issue,' says Santos Cruz. 'You need to find people who are willing and don't have a family. Luanda isn't a place to raise a family. We look for people who have mobility. Dual nationality is another criteria. I was born in Mozambique and can register with the Mozambique Bar, which is a huge advantage. There are all these issues with trying to accommodate the personal lives of our lawyers and our business needs. The Portuguese firms are never quite prepared to ask one of their senior partners to go out and live there. The problem is that you need someone out there locally and they're never able to make that sacrifice.'

The nature of the market has also changed over the years, requiring a much more hands on approach. António Payan Martins, a partner at Rui Pena, Arnaut & Associados, recalls a time when, as a Linklaters lawyer, the Angola-based transactions were a lot more straightforward.

'Most of these countries are heavy with bureaucracy, and corruption is an issue so things can go wrong.'
Claudia Santos Cruz, AVM Advogados

'The only things that the transactions had to do with Angola was that Sonangol [Angola's national oil company] was involved,' he says 'Nothing else related to Angola. Things have now changed because of the peace process and the slow evolution of the market. So you have to be more hands on and interact with the local banks and authorities and you need to have the capacity to do it.'

REVERSE FLOW

Among Portuguese-speaking nations, the other clear leader is Brazil, but as a jurisdiction this poses even more problems for Portuguese law firms, not least because the legal market is already incredibly well developed.

'Brazil and Africa are very different animals,' says Payan Martins. 'Brazil is a very sophisticated market. Brazilian law has evolved very far from Portuguese law, and has been heavily influenced by the US, as well as the big immigrant communities from Italy and Germany. They have followed a separate path from the Portuguese one. It is a market that Portuguese firms will not penetrate easily. Clearly the feeling is that Portuguese firms will have to team up with Brazilian firms to try and capture the Brazilian outbound investment in Europe and Africa, and Brazil is the second largest investor in Angola. I don't see big opportunities for Portuguese firms to capture the work in Brazil directly. They will be able to support their clients and provide added value in some areas but they will have to interact with a Brazilian firm.'

Payan Martins continues: 'For me Brazil is strategic and important but I look at it more as a big investor in Angola and Africa where we can capture a role, rather than their global investments.'

'In Latin America it is a much more developed market,' agrees Amendoeira. 'We have an office in Brazil, which is mostly there to be close to Brazilian clients for their overseas investments, likewise in Houston.'

Aside from representing Brazilian clients on their investments into Africa, the other area where the Portuguese firms feel they can have an edge is Brazilian investments into Portugal and elsewhere in Europe. The importance of this was acutely illustrated in 2010, when Brazilian investment into Portugal reached €1.94bn, whereas investment the other way was €653m. The only other time that this flow of investment was reversed was in 2003, but given Brazil's current economic strength, most are expecting it to be an increasingly common occurrence. At the corporate level this switch in strength was also seen in 2010 when the Brazilian steel manufacturer Companhia Siderúrgica Nacional made a €3.86bn hostile takeover bid for the Portuguese cement producer Cimpor. The bid was ultimately rejected, but the implications were there for all to see. Other companies such as the Brazilian aeroplane manufacturer Embraer have invested in Portugal, and used it as a hub for entry into the European market. In Embraer's case this involved the €148m development of two aircraft component construction plants in Portugal.

Remarkably, Angolan investment into Portugal has also been on the increase, having risen from €1.2m in 2000 to €45m in 2010 (having peaked at €116m in 2009). The most recent example came in January 2011, when Sonangol acquired a controlling interest in the Portuguese engineering company COBA, the first time it has taken a controlling position in a big Portuguese company. Most of these investments come through Sonangol – or other state entities – which has also built up interests in Portugal's main private bank Millennium bcp. The Angolan oil company also has a 45% stake in Amorim Energia, which itself owns a third of the Portuguese oil company Galp Energia.

'There is a natural tendency to start in Portugal,' says Santos Cruz. 'Angolans have money but have little credibility nationally. Angolans coming here and investing big stakes is a move to get this credibility.'

Despite this increase in inbound investment into Portugal from its former African colonies, most are realistic about how much work it will actually bring. 'You see a lot of Angolan money coming in,' says Pedro Pinto, founding partner of Pedro Pinto, Bessa Monteiro, Reis, Branco & Associados (pbbr). 'When I look at that phenomenon, from Brazil it will be a consistent trend, but from Angola I would wait and see.'

Even with Brazil, some feel that in the long term its economic success might take its banks and companies to more cash-rich centres such as the UK. 'Clearly the Angolan outbound investment is a very interesting flow,' adds Payan Martins. 'They are making strategic investments in Portugal and using it as a hub for investments into Europe. The problem there is that the number of players is very limited. In respect of Brazil, I have a more mitigated view. In the beginning of the Lula [Luiz Inácio Lula da Silva, Brazilian president between 2003 and 2011] presidency there was clearly a view to use Portugal as a hub, and the freezone of Madeira has traditionally been used as a hub for big Brazilian companies to structure their investment. My feeling is that Brazilian banks will move to other platforms for their global investment, especially now that they have liquidity and cash. They will use London for that purpose more than Lisbon. The big Brazilian companies will follow that trend.'

THE OLD GUARD

While the investment flows to and from countries such as Angola and Brazil are eyecatching, it shouldn't be forgotten that Portugal's main trading partners are in the EU, notably Spain, Germany, France, the UK, Netherlands and Italy. Other Eastern European countries, such as Poland, where the largest supermarket chain Jerónimo Martins is in fact Portuguese, also present potentially more stable long-term opportunities. Conversely, in the short term, countries like Angola and Mozambique might present swift opportunities for growth, but few would bet their house on the fact that they will remain stable forever.

'Portuguese companies and law firms are looking for new markets. The golden triangle is very appealing.'

Domingos Cruz, CCA Advogados

'It has worked in the short term but it is a very risky strategy,' says Rebelo de Sousa. 'If you look at Portugal, it might be a sovereign risk, but the risks you are running in some of these other jurisdictions are even higher.' Rebelo de Sousa's firm SRS Advogados has particularly strong links with the UK, since it was the former outpost of Simmons & Simmons, and remains in alliance with the firm since its departure from the Portuguese market in 2009. One of the firm's partners is the former Simmons Lisbon managing partner, William Smithson, who has helped establish a significant outsourcing practice, which is a key sector within the wider Portuguese economy.

The dominant presence of the main Spanish firms, Uría Menéndez, Garrigues and Cuatrecasas, Gonçalves Pereira is also testament to the importance of Portugal's Iberian neighbour. The economy in Spain might have troubles of its own, but the country still accounted for some €4.8bn of foreign direct investment in 2010 and remains Portugal's largest trading partner by a considerable distance. Any suggestion that Spain might follow Portugal down the bailout route is quickly dismissed. 'I don't think there is any concern in that respect,' says Duarte Garin, Uría Menéndez's Portugal managing partner. 'At a certain point a few months ago everyone thought that Spain was next. Fortunately Portugal could stay out of the bailout for a period long enough for Spain to get its act together. There is no concern in Portugal that Spain will follow next.'

INBOUND OPPORTUNITIES

The main message that partners want to get across is that regardless of where the international links come from, they are essential for future growth, particularly for the younger firms on the market. 'More than half of our turnover is from international work,' says Guimarães. 'We were set up in 1989 when all of the big domestic players had already chosen their lawyers. So when we were set up we catered for the international investor. We stayed with our traditional clients and the focus of our work has been international investors wanting to set up subsidiaries or do business in Portugal.'

This is of increasing importance now, especially given the impending round of privatisations that is about to take place following the EU and IMF bailout, as well as the relatively low cost of corporate assets in Portugal. In the same way that young Portuguese firms such as FCB&A capitalised on foreign investors in the late 1980s and early 1990s, many have taken the view that a new breed of potential long-term clients are about to enter the market. Though these won't necessarily all come from Europe.

'What we are going to see is that you are going to have international investors, but unlike the privatisation process in the 1990s where the key players were European, perhaps now the key players will come from outside of Europe,' says Payan Martins. 'Those firms that can capture the funds from the Gulf countries, the Asian players, the Chinese investors, or eventually the Brazilian and Angolan investors, clearly are the ones that will be the most successful. It will be interesting times. The IMF intervention represents the close of a cycle and the beginning of a new one.' **LB**

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